

ATTACHMENT 2 TO ANNEX 1  
(AJUNTO 2 AL ANEXO 1)  
ILLUSTRATIVE SPECIAL OBJECTIVE BUDGET  
(PRESUPUESTO ILUSTRATIVO DEL OBJETIVO ESPECIAL)  
HURRICANE RECONSTRUCTION PROGRAM  
(PROGRAMA DE RECONSTRUCCION POR EL HURACAN)  
US DOLLARS  
(DOLARES ESTADOUNIDENSES)

Element (Elemento)	Activity Description (Descripción de la Actividad)	Estimated Obligation (Estimación de Obligación)	Cumulative Obligations (Obligaciones Acumulativas)	Life of Activity (Vida de la Actividad)
	Emergency Road and Bridge Reconstruction Activity (Actividad de Emergencia de Reconstrucción de Caminos y Puentes) 522-0410.00			
1	Road and Bridge Reconstruction (Reconstrucción de Caminos y de Puentes)	0	46,800,000	46,800,000
2	Activity Management and Technical Assistance (Administración de la Actividad y Asistencia Técnica)	0	3,000,000	3,000,000
3	Evaluations and Audits (Evaluaciones y Auditorías)	0	200,000	200,000
	<b>TOTAL</b>	<b>0</b>	<b>50,000,000</b>	<b>50,000,000</b>

\* Subject to the availability of funds and otherwise as provided in Section 3.1(b) of the Agreement.  
(\*Sujeto a la disponibilidad de fondos y tal como sea estipulada en la Sección 3.1(b) del Convenio.)

Attachment B  
(Adjunto B)

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Elemento (Elemento)	Activity Description (Descripción de la Actividad)	Initial Obligation (Obligación Inicial)	Cumulative Obligations (Obligaciones Acumulativas)	Life of Activity (Vida de la Actividad)
	Reactivation of the Economy through Agricultural Credit and Technologies (Actividad de Reactivación de la Economía a través de Crédito y Tecnologías Agrícolas) 522-0410.01			
1	Agricultural Credit (Crédito Agrícola)	0	19,000,000	19,000,000
2	Technology Transfer (Transferencia de Tecnologías)	0	16,000,000	16,000,000
3	Policy (Políticas)	0	3,000,000	3,000,000
4	Activity Management and Technical Assistance (Administración de la Actividad y Asistencia Técnica)	0	1,000,000	1,000,000
	TOTAL	0	39,000,000	39,000,000

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Element (Elemento)	Activity/Description (Descripción de la Actividad)	This Obligation (Esta Obligación)	Cumulative Obligations (Obligaciones Acumulativas)	Life of Activity (Vida de la Actividad)
	Upper Watershed Rehabilitation Activity (Actividad para la Rehabilitación de Cuencas Altas) 522-0410.02			
1	Institutional Contractor (Contratista Institucional)	7,240,000	7,240,000	7,240,000
2	AMHON	50,000	50,000	50,000
3	USAID Project Management (Gastos Administrativos de la USAID)	600,000	600,000	600,000
4	Evaluation (Evaluación)	50,000	50,000	50,000
5	Audits (Auditorías)	60,000	60,000	60,000
	<b>TOTAL</b>	<b>8,000,000</b>	<b>8,000,000</b>	<b>8,000,000</b>

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	Public Health Protected (Protección de la Salud Pública) 522-0410.03			
10	MD-Urban Water and Sanitation (Agua y Saneamiento Urbano)	0	74,800,000	74,800,000
11	MD-Audits (Auditorías)	0	200,000	200,000
	<b>SUBTOTAL</b>	<b>0</b>	<b>75,000,000</b>	<b>75,000,000</b>
	Improved Responsiveness of Local Government to Citizen Needs Activity (Mejoramiento de la Respuesta del Gobierno Local a las Necesidades de los Ciudadanos) 522-0410.05			
1	Mitigation Infrastructure (Infraestructura de Mitigación)	0	17,777,000	17,777,000
2	Equipment (Equipo)	0	1,213,000	1,213,000
3	Technical Assistance and Training (Asistencia Técnica y Capacitación)	0	4,596,000	4,596,000
4	Activity Management (Administración)	0	229,000	229,000
5	Evaluations (Evaluaciones)	0	60,000	60,000
6	Audits (Auditorías)	0	125,000	125,000
	<b>SUBTOTAL</b>	<b>0</b>	<b>24,000,000</b>	<b>24,000,000</b>
	<b>TOTAL</b>	<b>0</b>	<b>99,000,000</b>	<b>99,000,000</b>

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	Public Health Protected (Actividad de la Protección de la Salud Pública) 522-0410.03			
20	H--Rural Water/Sanitation & Other Health Services (Agua/Saneamiento Rural & Otros Servicios de Salud)	0	2,920,000	2,920,000
21	H--Evaluations (Evaluaciones)	0	50,000	50,000
22	H--Audits (Auditoría)	0	30,000	30,000
	TOTAL	0	3,000,000	3,000,000

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	Permanent Housing Developed for Displaced Families Activity (Actividad para el Desarrollo de Vivienda Permanente para Familias Desplazadas) 522-0410.04			
1	Housing (Vivienda)	0	17,143,000	17,143,000
2	Activity Management and Technical Assistance (Administración de la Actividad y Asistencia Técnica)	0	857,000	857,000
	<b>TOTAL</b>	<b>0</b>	<b>18,000,000</b>	<b>18,000,000</b>

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Attachment 9 to Annex I to the Agreement

Activity Description for the Component for the  
Upper Watershed Rehabilitation Activity

I. Executive Summary

The component for the Upper Watershed Rehabilitation Activity (referred to herein as the "UWR Activity") has as its primary focus the rehabilitation of scores of subwatersheds in the upper reaches of mainly four key watersheds in Honduras: the watersheds of the Choluteca, Humuya (upstream Comayagua), Chamelecón-Ulúa (western part), and Aguán rivers. Measurable expected results include hectares of upper watershed areas placed under management.

The UWR Activity will build on past USAID experiences in Honduras, including effective sustainable hillside agriculture techniques, forestry practices and municipal strengthening. It will use an integrated agricultural and forestry approach and will be community intensive. The local partnerships between municipalities, local communities and NGOs will constitute the basic "building block" for carrying out the UWR Activity.

II. Problem Statement

In Honduras, as in other countries, erosion is the primary contributor to water pollution and land degradation. Inappropriate farming, grazing and forestry and road building practices have been causing upper watershed degradation and adverse downstream impacts for many decades. Furthermore, the steep and mountainous topography emphasizes most watershed problems.

Although USAID and other donors have fostered agricultural conservation practices for many years, environmental protection is still perceived as a low priority by the central government and limited resources have been allocated to actually execute these practices. Municipal governments understand the linkage of proper land use to water supply, but most of them lack the knowledge and resources to implement effective actions for watershed management.

Floods, landslides and erosion are natural phenomena, but the damages from Hurricane Mitch were magnified due to the country's poor land use practices. The environmental impacts of this hurricane have been monumental, the increased erosion and sedimentation caused by Hurricane Mitch has reduced the capacity of stream channels at both upstream and downstream locations and water flows that previously would have remained within the streambanks now may flood. Thousands of hectares of upper watershed land have suffered serious surface erosion and thousands of additional hectares in the same areas continue to be highly susceptible to future damage. Landslides in the unstable uplands of watersheds will keep contributing additional debris to already sediment-choked stream channels in the lower river basins for many years.

Proper land use practices must be urgently developed in the upland watershed areas to conserve upstream soils, regulate runoff flows, improve water quality, and protect downstream agricultural, social and commercial infrastructure.

### III. Anticipated Results

Activities under the component for the UWR Activity will be aimed at preventing further environmental deterioration to contribute, over time, to the rehabilitation of watersheds. A significant achievement related to watershed management and sustainable land use practices is reduced erosion. This in turn helps to obtain improved water quality and reduced sedimentation and stream flow variation. These two results are expected in the long-term. Below are the short-term targets expected to be met by the end of the two years.

Activities under the component for the UWR Activity will support achievement of the Objective through the achievement of Intermediate Result 2 ("IR 2") "Environmental and Disaster Mitigation Needs Addressed". IR 2 has the following three second-level intermediate results:

Result 2.1 Rehabilitation of Key Watersheds

Result 2.2 Development and Sharing of information on Watersheds, Rivers and High-risk Areas

Result 2.3 Disaster Preparedness and Mitigation

However, subactivities to be financed under the UWR Activity, which are described in Section IV below, will be aimed exclusively at achieving the third-level results "Expansion of Watershed Management Activities" and "Strengthened Municipal Role in Upper Watershed Management" under the second-level intermediate result 2.1 "Rehabilitation of Key Watersheds". The indicators and targets for measuring progress of subactivities of the UWR Activity to be financed under this Agreement in achieving the third-level results are as follows:

Result 2.1.1 Expansion of Watershed Management Activities, as measured by:

- Increased hillside area under sustainable agricultural management practices: 2,700 hectares placed under sustainable agricultural practices
- Increased area under sustainable forest management practices: 27,000 hectares placed under sustainable forest management practices

Result 2.1.2 Strengthened Municipal Role in Upper Watershed Management, as measured by:

- Increased municipal participation in watershed management: 30 municipalities involved in watershed management

In addition, USAID may enter into an Interagency Agreement with the US Department of Agriculture (USDA), referred to herein as the "USAID/USDA Agreement", with funds not provided under this Agreement. Under the USAID/USDA Agreement, the USDA may implement its subactivities as described in Section IV, but would concentrate its efforts in the upper watershed of the Humuya and Otoro rivers (Comayagua and La Paz regions, part of the Ulúa watershed). The indicators and targets for measuring progress of the activities to be conducted by USDA, which would also be aimed exclusively at achieving third level results under the second-level intermediate result "Rehabilitation of Key Watersheds", are as follows:



- Result 2.1.1 Expansion of Watershed Management Activities, as measured by:
- Increased hillside area under sustainable agricultural management practices: 800 hectares placed under sustainable agricultural practices
  - Increased area under sustainable forest management practices: 8,000 hectares placed under sustainable forest management practices
- Result 2.1.2 Strengthened Municipal Role in Upper Watershed Management, as measured by:
- Increased municipal participation in watershed management: 10 municipalities involved in watershed management

Furthermore, activities under the ongoing USAID-supported Forestry Development Project (FDP, 522-0246) are expected to be reprogrammed to complement the UWR Activity. The main activities under the refocused FDP would be training and technical assistance to municipalities and local groups which are important to the achievement of the results for the UWR Activity. FDP activities and results would be fully described in an amendment to the Project Agreement for the FDP.

#### IV. Description of Activities

##### A. Focus of Watershed Management Activities

The UWR Activity will take an integrated approach to watershed management by incorporating various activities that will work in different ways to protect and restore deteriorated and damaged watersheds.

Subactivities to be funded under the UWR Activity are expected to focus on the following practices to accomplish the results stated above:

- **Improved hillside agriculture technologies** – Various hillside agricultural technologies can dramatically reduce erosion and improve soil conservation on hillsides. These technologies also improve productivity for the farmers who implement them. The hillside agricultural practices that are expected to be promoted under the UWR Activity include:
  - **Contour tilling** – Plowing or tilling the earth in rows always perpendicular to the slope of the land so that the rows slow runoff down the slope.
  - **Terracing** – Building step-like terraces into the slope, again to slow runoff which is caught on the flat terraces and has greater potential to be absorbed into the soil.
  - **Mulching** – Piling organic matter on the surface of the soil to soften the impact of rain on the soil and absorbing water to reduce and slow runoff, while also improving soil structure and nutrient content.
  - **Dead and live barriers** – Live barriers involve planting of grass, bushes, or other perennials to hold soil in place and slow runoff; an example of a dead barrier is a rock wall.

- **Improved forest management practices** – Improving the use of land areas results in increased soils stability, better water quality and better stream flow patterns. In most of the areas of the upper watersheds, the best alternative to maintain a good vegetative cover to prevent erosion and mitigate the destructiveness of floods is forestry undergrowth.

Forest management practices that may be promoted under the UWR Activity include:

- ***Proper road construction and logging*** – Deforestation, improper roads and logging trails are the main causes of erosion in forest areas. Technical assistance and training to prevent and correct improper practices will be given to municipal government members, community groups and forest owners.
- ***Forest fire protection*** – Uncontrolled forest fires significantly diminish the vegetative cover increasing surface runoff, erosion and suspended sediments. Preventing and fighting forest fires will be a basic element of the watershed management programs.
- ***Maintenance of the forest cover*** – Funds under the UWR Activity may be used to finance extension and enforcement efforts to reduce the agricultural encroachment into the forest. This action is consistent with Article 64 of the Forestry Law which provides guidelines for the protection of all permanent springs (*nacimientos*) considering the total drainage area in those cases where the water source supplies drinking water. However, in those areas already in agricultural use, subactivities under the UWR Activity are expected to focus on fostering improved soil conservation practices.
- ***Improved grazing practices*** – Overgrazing in the hillside forest areas reduces the vegetative cover of the land and the infiltration capacity of the soil. Limiting the livestock for area, rotating forage areas and improved pastures are the technical solutions that are expected to be promoted under the UWR Activity to alleviate this problem. Cultural constraints also are expected to be addressed.
- ***Reforestation*** – Silvicultural practices to improve the natural regeneration are expected to be applied. Furthermore, in some deforested areas of critical importance artificial reforestation may be done. The proposals and work plans for grants under the UWR Activity will be required to include the necessary reforestation activities.
- ***Point-source controls*** – Although the subactivities under the UWR Activity are expected to concentrate on non-point erosion, point-source activities such as coffee processing also may be addressed, wherever significant. Technical assistance, training and monetary incentives may be provided to foster the reduction of water pollution from both sources.
- **Agroforestry** – This is a system by which woody perennials are grown on the same land unit as agricultural crops, and/or animals raising, either sequentially or simultaneously. Border tree planting, alternative rows and strips, and random mixes are some of the main agroforestry options. Agroforestry systems to help meet the watershed protection objectives, while improving the sustainability and economic return of the hillside farms, may be implemented under the UWR Activity.

In summary, upland management strategies of the UWR Activity will use an integrated agricultural and forestry approach. The approach will focus on both preventive and restorative practices, aimed at reducing erosion and downstream sedimentation. Proposed practices will help reach soil conservation and water resource objectives.

## **B. Approach**

The UWR Activity will set out to make fundamental changes in the way the rural population uses the land, and more importantly, to foster changes in attitudes toward the land and its use. Funds may be provided under the UWR Activity for subactivities that promote these changes through:

- **Education** -- Frequently, persons undertaking agricultural or other activities harmful to watersheds are simply not aware of often simple practices that would reduce the negative impact and begin to restore soil resources while improving productivity. Educational efforts help to build understanding of both the negative impacts and how to reverse those impacts. In agriculture, the effort is particularly effective when performed "farmer-to-farmer".
- **Incentives** -- Many times the additional effort required to use environmentally sound practices also has an economic payoff which provides additional incentive to take appropriate action. Educational efforts can help clarify and demonstrate those incentives. Some activities, such as reforestation, may require compensation for those involved in the work, and incentive systems must be in place to assure that these new trees are not soon cut for fuel wood or lumber. Other incentives could be provided to support alternative options such as on-farm fuel wood planting (agroforestry).
- **Enforcement** -- Protection of forests or water sources must be enforced through some type of formal or informal system. Grazing limits may also need to be enforced. The task of enforcement may fall on community groups, municipalities, or national government entities or some combination depending on the land involved. It is expected that municipalities working under programs supported by the UWR Activity will be able, or will acquire the capacity, to detect the various problems and foster the required enforcement actions. No training, advice or any financial support for police or other law enforcement forces will be provided under the UWR Activity.

The UWR Activity will focus on strengthening local capacity to carry out selected watershed management and rehabilitation activities. The mechanism to channel funds to key implementers will be the provision of grants to NGOs and/or other private firms.

The **technical approach** under the UWR Activity will be to ensure an integrated approach for each geographic area. Both agricultural and forestry related concerns will be addressed in each of the proposals submitted by interested parties. Proposals will be cleared by the municipal governments and the Honduran Forestry Development Corporation (COHDEFOR), the national entity in charge of regulating forestry actions nationwide.

In **hillside agriculture**, to achieve widespread use of sustainable practices requires education to convince farmers that the "new" way is better. Because of these concerns, the approach developed over 18 years with the Natural Resources Management Project and LUPE --and their "spin-offs"--is expected to be used under the UWR Activity in the identification, recruitment, training, and empowerment of selected men and women in each community. These contact

farmers (productores de enlace) are key to convincing others in the area, and are the impetus for effective multiplier effects in extending and sustaining watershed management interventions.

In **forestry**, proposals will provide funding to promote and/or support forest protection, silvicultural and reforestation activities, including funding for actions to reduce point-source pollution resulting from coffee processing activities.

The UWR Activity will foster the establishment of **municipal associations** focused on watershed issues. These municipal associations will: (a) identify critical areas within the watersheds; (b) oversee and control watershed activities in the geographic area of interest, particularly for local watersheds which are shared by two or more municipalities; (c) help strengthen the Municipal Environmental Units (UMAs) in key municipalities and establish them in smaller municipalities; (d) provide technical services to smaller municipalities; (e) help identify potential interventions in the area and potential actors; (f) lead promotional and educational campaigns; and (g) help establish links among municipalities and interested entities working in the region.

### **C. Geographic Focus**

Priority target areas are the watersheds of the Choluteca, Humuya (above Comayagua), Chamelecón-Ulúa (western part), and Aguán rivers. The size and location of the specific subwatershed areas to be covered under the UWR Activity will be defined in collaboration with municipalities and communities, according to the physical characteristics, agricultural activities, social conditions and water demands of each area studied. Part of the criteria for selection will be to concentrate efforts in a geographically-defined portion of the watershed in order to see measurable results in that area and develop a nucleus for future expansion.

Activities will be implemented in selected communities of the assisted municipalities. Priority is expected to be given to communities with low development in proper hillside agricultural practices and with endangered water resources. The forest actions will concentrate on forest protection, specially on young stands. Although all of the practices are expected to be promoted in each assisted community to offer an integrated effort, it is anticipated that practices will be accepted by approximately half of the population in each community. Previous experiences have shown that the best development (cost-effective) option is to focus efforts on the progressive farmers of the communities and allow through time, the expansion of the implemented practices to the rest of the community. Watersheds geographic extension include national, municipal and private lands.

### **V. Implementation Plan**

Subactivities under the UWR Activity are expected to be carried out under a number of mechanisms which may include the following:

- (a) a USAID-direct contract or agreement with an institutional contractor that, in accordance with USAID requirements, will be responsible for, among other things, establishing and managing a direct grant program and, through Fundación VIDA (VIDA), a subgrant program; coordinating with other implementing entities; and overseeing all aspects of implementation assigned to it under its contract/agreement;
- (b) a USAID-direct contract or agreement with the Honduran Association of Municipalities (AMHON) which will be responsible for, among other things, identifying key municipalities in

the most relevant areas and assisting those municipalities in the establishment of watershed associations;

- (c) the USAID/USDA Agreement which, as described above, will not be funded under this Agreement; and
- (d) other USAID-direct contracts for services (technical assistance, USAID administrative services/costs, evaluations and audits) and goods (including equipment and/or supplies).

## **VI. Roles and Responsibilities**

### **A. Institutional Contractor**

The US institutional contractor will have primary responsibility for implementing and coordinating subactivities under the UWR Activity to be funded under this Agreement. In accordance with USAID requirements, the US institutional contractor will be responsible for establishing and managing a program of direct grants to US and local NGOs for major upper watershed rehabilitation programs and/or proposals which will make major contributions to such programs and which, in both cases, are consistent with the overall UWR Activity and its results. One of the recipient organizations is expected to be VIDA which will, in turn, with assistance from the institutional contractor, establish and manage a program of sub-grants to U.S. and local NGOs, as described below. The institutional contractor will be required to monitor progress of the grantees and sub-grantees and ensure that financial audits are conducted of such entities in accordance with agreed policies and procedures. The institutional contractor will also be responsible for providing technical assistance to VIDA to establish and manage its sub-grant program.

### **B. Fundación VIDA**

As noted above and subject to compliance with USAID requirements, VIDA, which is considered to be the leading environmental/natural resources management NGO in Honduras, is expected to submit a proposal for and receive a grant under the program established by the institutional contractor. Under its grant, VIDA is expected to be responsible for direct subgrants to US and local NGOs for the implementation of integrated watershed management activities.

### **C. AMHON**

As noted above and subject to compliance with USAID requirements, AMHON is expected to identify key municipalities in most relevant areas and to assist those municipalities to establish watershed associations. AMHON will also be responsible for assisting municipal watershed associations with improving their interactions among such associations and with other institutions having common goals.

### **D. Municipalities**

Local governments will play a significant role in planning, implementing and evaluating all actions under the UWR Activity.

#### **E. NGOs**

US and local NGOs are expected to submit proposals for funding to the institutional contractor and/or VIDA. Such proposals may cover agricultural, forestry and agroforestry activities in integrated watershed management efforts.

#### **F. US Department of Agriculture (USDA)**

Although not funded under this Agreement, the USDA is expected to perform a valuable role for the UWR Activity. The USDA is expected to concentrate its efforts in the upper watershed of the Humuya and Otoro rivers (Comayagua and La Paz regions, part of Ulua watershed). Those efforts are expected to include, among other things, the promotion of locally-led conservation through communities, municipalities and private entities; and technical assistance to farmers to reduce soil erosion and excessive water runoff, and improve farm production and income.

#### **G. US Geological Survey (USGS)**

Although not funded under the UWR Activity, the USGS is expected to provide assistance to municipalities in identifying critical areas within the selected watersheds through the provision of geographic data for the identification of potential concerns and the development of effective watershed management solutions.

#### **H. Grantee (GOH)**

The GOH, with USAID, will play an overall monitoring role to assess general progress and achievement of planned results. All activities will be coordinated by the Ministry of Agriculture and Livestock, and forestry activities for watershed management will be approved through COHDEFOR, the national entity in charge of regulating forestry actions nationwide.

#### **I. USAID**

USAID has overall responsibility for coordinating the efforts of the foregoing implementing organizations and for monitoring progress toward achieving the results. Although the UWR Activity will be managed by a team, the primary contact person will be the USAID team leader for the Environment Special Objective until otherwise notified in writing by USAID. USAID shall have substantial involvement in the establishment of selection criteria for the grants and sub-grants and shall approve the actual selection of grant/sub-grant recipients.

### **VII. Monitoring, Reporting, Evaluation and Audits**

#### **A. Monitoring Results, Indicators and Targets**

The specific results, indicators and targets for the UWR Activity are set forth in Section III of Annex I to the Agreement

#### **B. Activity Monitoring, Performance Evaluation and Reporting**

Each contract, grant agreement and cooperative agreement involving services executed with funds provided under the UWR Activity will contain provisions setting forth the requirement for the implementing entity to develop a performance monitoring plan and to report progress periodically under that plan. These plans are expected to include performance measures

consistent with the indicators for the UWR Activity. In addition, each contractor/grantee will be required to submit for review an annual workplan and budget, based on the calendar year. In the case of grantees under the institutional contract, such workplans and budgets will be submitted to the institutional contractor which will be responsible for submitting a combined report to USAID. The annual workplans and budgets will include a progress report on results achieved during the previous year. USAID will be responsible for reviewing and approving each annual workplan and budget in accordance with its established procedures. Each contractor/grantee will also be required to submit quarterly progress and financial reports, as well as a final report.

#### **C. Evaluations**

It is anticipated that one evaluation of the UWR Activity will be conducted and funds have been set aside for that purpose. The timing and scope of the evaluation will be determined by USAID. In the event that such evaluation is determined not be required, such funds will be reprogrammed for other purposes under the UWR Activity.

#### **D. Audits**

Each contract, grant agreement and cooperative agreement will contain provisions setting forth the requirements for audits. Such requirements, as well as the arrangements with Grantee ministries and institutions, will be consistent with Section B.5 of the Standard Provisions Annex II to this Agreement.

#### **VIII. Illustrative Financial Plan**

The illustrative financial plan for the UWR Activity is included as part of the illustrative financial plan for this Agreement as described in Section VII of Annex I to the Agreement.